Financial Report

OF

GEO. A. HORMEL & COMPANY

AUSTIN, MINNESOTA

for the

Fiscal Year Ended October 26, 1946

OFFICERS

Jay C. Hormel	Chairman of the Board
H. H. Corey	President
R. F. Gray	Executive Vice President
R. H. Daigneau	Vice President
Park Dougherty	Vice President
Clarence Nockleby	Vice President
J. L. Olson	Vice President
T. H. Hocker	Vice President
C. D. Bigelow	Secretary
M. F. Dugan	Treasurer
R. D. Gower	Comptroller

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DIRECTORS

S. D. Catherwood
H. H. Corey
R. H. Daigneau
Park Dougherty
M. F. Dugan
R. D. Gower
R. F. Gray
John P. Higgins
T. H. Hocker
Jay C. Hormel
J. L. Olson

Austin, Minnesota
November 30, 1946

To the Stockholders of
Geo. A. Hormel & Company

This report including the earnings statement and balance sheet of your Company for the year ended October 26, 1946, is submitted herewith.

Financial

Capital stock and surplus totaled $16,847,682. The Company has no funded debt. It had no borrowed money nor other indebtedness at the year-end beyond current and customary bills. Its net working capital amounts to $11,247,663. The ratio of current assets to current liabilities is 2.4. As the balance sheet discloses, the Company is in a strong financial condition, the position of the stockholder is well-secured and the business should be well able to maintain its position in the industry.

The weight of product sold this year was 524,313,521 pounds, a decrease of 3.2% under last year. The total sales amount was $129,312,052, an increase of 10.5% over last year. Net profit increased to $2,541,138, which is approximately 2.0% of net sales and amounts to less than 4/10th of a cent per pound of livestock slaughtered. This profit is more nearly in line with the return which should be had from the full processing of livestock products in order to provide the processor with sufficient income to afford a program of research and development, and plant improvement, which will be adequate to permit a high and continuing rate of increase in efficiencies and in refinement and diversification of products.

Employee Relations

Since June the business has faced situations which are without precedent—the OPA holiday, the return of controls, and then the reestablishment of a free market. During the period of decontrol, an unseasonably large volume of livestock came to market and our customers deluged us with an unseasonably large demand for the meat. During the period of re-control, livestock did not come to market. Tens of thousands of workers were laid off in the packing industry, and the employees in our plant had very little work to do, with some departments working only two days a week and less than two hours on each of those two days. Newspapers and magazines took notice of the situation and expressed various degrees of doubt as to the practicality of employment by the year.

It was not only the men who had no work to do. The plant was empty; our facilities were idle; our inventories and accounts receivable became merely money in the bank. The extremity of our situation is perhaps best illustrated by an anecdote. The chairman of a local picnic committee had underestimated the attendance and called us for an extra 25 pounds of wieners. We did not have 25 pounds of wieners.

We did use those intervening weeks to put our facilities in order, so

we were well prepared when the livestock began to rush in from the farm after the lifting of OPA controls on October 15. And it was then that the Company policy of steady employment was rewarded by gangs who were ready to move at once into full production, which they did with a will.

We have only 136 persons in the Austin plant who have joined the Company during the past year, and of these 121 are war veterans not previously employed by us. However, during the year, 951 veterans have returned to the plant from military leave.

Altogether, there have been 2045 military leaves from the Company's various places of employment. 64 lost their lives in the service. Educational opportunities and other attractions kept 297 from returning to us and lured away 165 who did return. 1302 or 74% of those discharged are now working for the Company, and 217 are still on military leave and may return to us.

In each of our locations our relations with employees during the past year have been excellent. There are no pending grievances and no differences of opinion except those that affect the industry nationally. The quality of workmanship is very good and the rate of production per man per hour is much higher than average. These things lead us to believe that our policies and procedures are serving the well-being of the employer as well as that of the employee. We have not yet done all the things which can be done to make this a better place to work, but we are constantly adding to and improving our program.

During the year we have extended the Straight Time Plan to most of our branch operations and our policy of production and incentive payments has been extended and expanded. A Time Study and Methods Department has been developed to make more careful studies of what constitutes fair working schedules for production departments. This, of course, is a continuation of our program of doing those things which will produce the highest possible annual average earning for employees.

All employees steadily in the service of the Company—that is, those who have come with us before the beginning of the fiscal year and have not left us by the year-end—are eligible for Joint Earnings. Of the 5531 employees on our payroll at the end of the year, 5108 qualified for Joint Earnings participation this year, and for these the average wage or salary payment for the year amounted to $3,033 per employee. This amount includes an average of some five weeks' pay as the year-end Joint Earnings payment and compares with a total average, including Joint Earnings, of $2,607 for 4783 employees last year. The average annual increase in earnings per employee over last year amounts to $426. Three-fourths of this increase may be accounted for by the higher wage level effective throughout the industry during the last nine months of the year. However, our employees seem to have enjoyed an additional benefit fully equal to one-third of the industry wage raise, because the last $100 in this increase in annual earnings can only be explained by the increased business opportunity this year, and by the increased effectiveness in the way the work was done.

Outside of job assurance and earnings opportunity the Company has provided for employee welfare and security by three separate plans.

One of these is the Sick Leave Plan, payments under which have amounted to approximately $100,000 this year.

Another is our Group Insurance Plan, part of the cost of which is contributed by the Company and part by the participating employees. During the present

year the coverage under this Group Plan was materially increased with respect to both life and hospitalization insurance. It seems that more than fifty percent of our people depend upon this plan for their protection and carry no other insurance.

The third major plan for the welfare and security of employees is the Hormel Profit-Sharing Trust which undertakes to build up a cash estate for each employee who has been with us four years or more. Like our Joint Earnings Plan, and indeed the employee's basic earning opportunity on his job, the value of the Profit-Sharing Trust to the employee increases rapidly as the profits in the business increase. With our larger Company profits this year the amount going into the Profit-Sharing Trust rose to $1,174,249 for the year, bringing to $2,449,752 the total amount held for our employees by the Trustee, the First National Bank, of Minneapolis.

During the year 933 more employees have become eligible for the Profit-Sharing Trust and have had their first small participation of $42.15 each credited to their individual accounts with the Trustee. The rate of participation increases with years of service. Although the plan is now only three years old, the fact that two of those years were reasonably profitable years for the Company has permitted contributions which have provided a total cash deposit of $752.25 or more for each of the 599 employees who have been with us 20 years or more. After 20 years the proportionate rate of participation increases more rapidly, so from the two and one-half million dollars which has been paid in by the Company, each of the thirty-two 25-year men has $2,833; each of the forty-four 26-year men has $3,500; each of the thirty-nine 27-year men has $4,500, and the one hundred twenty-eight who have been with us 28 years or over now have $5,500 each on deposit for them. During the year nine of the participants of the Trust have died and the amounts accumulated for them have gone to their families in addition to their insurance. Twenty-eight have retired, and their money is now being withdrawn by them to provide income for them. Although the future value of the plan to employees depends upon future profits of the Company, it is already true that the group of oldest employees have a sufficient fund to provide them with a minimum of $45 per month for the first ten years of their retirement.

Changes

During the year, facilities for the production of sliced bacon and pork sausage have been added to our branches at Charlotte, Winston-Salem and Montgomery. Facilities for increased volume of sausage manufacture have been installed at Houston, San Antonio and Dallas. Similar additions are contemplated at several of our other branches during the coming year. At Austin we have enlarged our plant for sewing natural casings, thus enlarging our facilities for converting the less-wanted smaller sizes into those larger sizes which are in greater demand. We have started a gelatin factory in an existing building. Shortly after the first of the year, we will finish a new structure which was started last spring next to the main office and which will house a new cafeteria, an employment office and a first aid and medical department which meets the very highest standards for facilities for the practice of industrial medicine.

The plant of the Mitchell Abattoir, Inc., which has been owned by a separate corporation but which has been operated in close connection with us, has now been taken over by and is part of Geo. A. Hormel & Company.

This year was saddened by the passing of Mr. and Mrs. Geo. A. Hormel. Mr. Hormel's active contact with and influence on the business continued through the last week of his life. His principles and the traditions he established will continue to guide the business in the future.

The President of the Company succeeded to Mr. Hormel's office as Chairman of the Board. Mr. H. H. Corey, who was Vice President and General Manager, has become President. With the title of Executive Vice President, Mr. R. F. Gray, who was Vice President in charge of the Packing Division, has taken over the previous functions of Mr. Corey. Mr. Gray was succeeded by Mr. Clarence Nockleby, who was previously manager of fresh sausage operations and who is now Vice President.

At last year's Annual Meeting, Mr. R. F. Gray was elected Director to succeed Mr. L. E. Wakefield who died July 25, 1945, after serving as a Director of the Company since 1922, and during the year Mr. J. L. Olson was elected to the Board to succeed Mr. O. W. O'Berg who came to work for the Company March 11, 1907, had been a director since 1922, and who retired this year.

With this change in the officers of the Company, and with the return of so many young men from military service, it will be the policy of the Company to impose materially increased responsibilities on younger men. Most of the present management group had come into their positions of responsibility by 1930, at which time their average age was 31 years. It will be our purpose to move young men along toward top positions in such numbers as will keep our average executive age well under 40.

The outlook for the coming year seems to us more certain than during recently past years.

Cattle have been coming to market in considerable numbers with indications that there will be constant improvement in quality as livestock men are able to feed animals to better grades. There is an indication of fewer lambs than last year, but hog estimates promise no appreciable change in total numbers available for the year as a whole, although for late 1947 there should be more hogs because of the excellent stocks of feed resulting from this year's harvest.

The Company is just now beginning to be able to offer full supplies of regular packing house products and meat specialties. During the year we hope to be able to furnish liberal supplies of the choicest fresh meat including pork, beef, lamb and veal, along with ham, bacon and sausage specialties. We are proud of the quality and uniformity of all these items, and we anticipate a materially increased volume of business in such specialties as pork sausage, frankfurters, pickled pigs feet and that variety of ready-to-eat meats which we prepare for the delicatessen trade. This latter group includes dry sausage for which the Company has an excellent reputation because of their outstanding quality. We anticipate that this department of our business will grow as we find ways of acquainting more people with the deliciousness of these products.

In the Flavor-Sealed Division we are still hampered by a shortage of tin and glass containers. Of the large number of canned foods which we are prepared to make, we are now able to offer only somewhat restricted quantities of certain items, including Spam, Chili con Carne, canned Ham and canned Chicken, together with a new and outstandingly good group of sandwich spreads—Deviled Ham, Deviled Tongue and Liver Pate'. It is hoped that tin and glass will become available to permit us to manufacture these items in sufficient quantity to supply the demand and that we will be able to resume the manufacture of other items that we used to make, as well as to begin manufacture of those which we are prepared to make when containers can be had.

The Company is maintaining a substantial advertising program, using more than a dozen of the nation's leading publications. However, since no advertising is more effective than the spoken word of a friend, we urge our stockholders to help us acquaint people with the goodness and variety of Hormel products.

H. H. COREY
President

ACCOUNTANTS' REPORT

To the Board of Directors
Geo. A. Hormel & Company
Austin, Minnesota

We have examined the balance sheet of Geo. A. Hormel & Company as of October 26, 1946, and the statements of profit and loss and surplus for the fiscal year then ended, have reviewed the system of internal control and the accounting procedures of the company and, without making a detailed audit of the transactions, have examined or tested accounting records of the company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying balance sheet and related summaries of profit and loss and surplus present fairly the position of Geo. A. Hormel & Company at October 26, 1946, and the results of its operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST
Certified Public Accountants

Minneapolis, Minnesota
November 26, 1946

BALANCE

Geo. A. Hormel & Company

October

ASSETS

		CURRENT ASSETS		$19,254,215
Cash in banks and on hand			$4,869,456	
United States Government securities—at cost			2,256,756	
Trade accounts receivable, less reserve of $100,000			4,376,212	
Inventories:				
Products, livestock, packages and materials—at lower of cost or market (cost of production is based on market at the date of production)			7,751,791	
		INVESTMENTS AND OTHER ASSETS		113,569
Properties not used in operations—at cost less reserves for depreciation of $26,466			$ 28,824	
Sundry securities, notes and accounts, less reserve of $32,150			84,745	
		PROPERTY, PLANT AND EQUIPMENT		5,255,254
	Cost	Reserves	Net Balance	
Land	$ 146,208		$ 146,208	
Buildings	5,729,068	$2,082,632	3,646,436	
Machinery and equipment	4,084,842	3,037,976	1,046,866	
Leasehold improvements	353,517	197,805	155,712	
	$10,313,635	$5,318,413	$4,995,222	
Movable equipment—inventory basis			260,032	
		DEFERRED CHARGES		331,196
				$24,954,234

SHEET

— Austin, Minnesota

26, 1946

LIABILITIES

CURRENT LIABILITIES			$ 8,006,552
Accounts payable		$1,272,151	
Salaries, wages and profit sharing payments		3,963,955	
Income taxes withheld from employees and pay roll taxes		243,755	
Dividends payable November 15th		254,181	
Accrued local taxes and other expenses		271,510	
Federal and state taxes on income of the year ended October 26, 1946, and prior years—estimated, less amounts recoverable from prior years ($249,407)		2,001,000	
RESERVE—for contingencies			100,000
CAPITAL STOCK AND SURPLUS			16,847,682
Preferred stock, cumulative, par value $100:			
Authorized—48,935 shares			
Issued—Series A, 6% (callable at $105)	14,554 shares	$ 1,455,400	
In treasury	100 shares	10,000	
Outstanding	14,454 shares	$ 1,445,400	
Common Stock, no par value:			
Authorized—500,000 shares			
Issued	493,944 shares	$ 6,116,586	
In treasury	28,944 shares	358,414	
Outstanding	465,000 shares	$ 5,758,172	
Surplus (including earned surplus of predecessor corporation)		9,644,110	
			$24,954,234

See accompanying notes to financial statements.

SUMMARY OF PROFIT AND LOSS STATEMENT

Geo. A. Hormel & Company

Fiscal year ended October 26, 1946

SALES (less returns and allowances)		$129,312,052	
Less freight and express		3,229,443	
NET SALES			$126,082,609
COSTS, EXPENSES AND TAXES (Itemized below)			123,541,471
MATERIAL COSTS AND EXPENSES		$103,239,132	
Cost of products sold, selling, administrative and general expenses, exclusive of items shown separately	$102,638,627		
Provision for depreciation and amortization	511,811		
Sundry charges less sundry income and credits	88,694		
TOTAL WAGE COSTS		17,742,817	
Wages and salaries including joint earnings	$ 16,211,775		
Contribution to employees' profit sharing trust	1,174,249		
Unemployment and federal old age benefit contributions	356,793		
TOTAL TAXES		2,559,522	
Property and miscellaneous taxes	$ 322,903		
Taxes on income—estimated:			
Provision for the year:			
Federal normal income tax and surtax	$ 1,709,000		
Federal excess profits tax	302,000		
State income tax	125,000		
Additional provision for prior years	100,619		
	$ 2,236,619		
NET PROFIT			$ 2,541,138

See accompanying notes to financial statements.

SUMMARY OF SURPLUS

Geo. A. Hormel & Company

Fiscal year ended October 26, 1946

SURPLUS—October 27, 1945 *		$8,124,228	
Add net profit for the year		2,541,138	$10,665,366
Deduct:			
Cash Dividends:			
On preferred stock—$6 per share	$ 86,724		
On common stock—$2 per share	930,000	1,016,724	
Excess of cost over book value of minority interest in capital stock of subsidiary		4,532	1,021,256
SURPLUS—October 26, 1946			$ 9,644,110

*Includes a credit of $1,323,438 resulting from reduction in tax provisions, which is segregated in the Company's accounts pending review of the Company's claims for relief under the provisions of the Internal Revenue Code.

NOTES TO FINANCIAL STATEMENT

NOTE A—The accompanying financial statements include the accounts of the Company's former operating subsidiary which was liquidated as of October 26, 1946.

NOTE B—Renegotiation of war contract profits for all affected periods have been concluded and all required refunds have been paid.